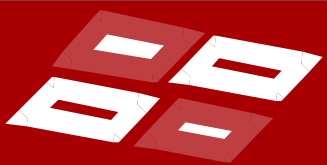
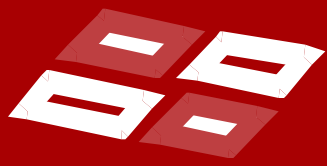


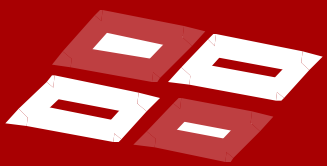
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**Analysis of Policy Reform and
Structural Adjustment Programs
in Zimbabwe**
With Emphasis on Agriculture and Trade



Gordon Sithole
Ministry of Agriculture
Zimbabwe



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Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development*

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Contents

Foreword	v
Acknowledgments	vii
Executive Summary	ix
Glossary of Acronyms and Abbreviations	xi
1. Introduction	1
Background	1
Scope of Study	1
2. Macroeconomic Policies and Agricultural Performance	3
3. Policy Changes Since 1990, Current and Future Policies	5
Fiscal Policy	5
Monetary Policy	6
Exchange Rate Policy	7
Trade Policy	8
Investment Policies	12
Agricultural Reforms	13
Public Enterprise Reform	18
Concluding Remarks	18
Tables	
3.1. Schedule of Tariff Reform	10
3.2. Schedule of Import Liberalization (Cumulative % of Total)	11
References	21

Foreword

Policy reform — geared towards restoring macroeconomic stability and creating an efficient, effective economic environment — is one of the urgent challenges facing Southern Africa today. Most, if not all, members of the Southern Africa Development Community (SADC) are working to create economic environments that are conducive to growth and development. Two primary aims of these structural adjustment programs are (a) to transform economic policies and (b) to correct imbalances caused by years of economic mismanagement and pursuit of misguided development strategies. The policy changes pursued by these countries are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

Through a USAID subgrant provided through TechnoServe Kenya, the University of Swaziland has coordinated research to examine structural adjustment activities in four Southern African countries — Malawi, South Africa, Zambia, and Zimbabwe. As this research demonstrates, reform programs have had different rates of implementation and success in the different countries of the region.

This report presents the findings of research concerning reform activities in Zimbabwe. In 1990, the Government of Zimbabwe (GOZ) initiated an Economic Structural Adjustment Program (ESAP) — a comprehensive five-year economic reform program. This program has led to significant progress in agricultural reform related to pricing and marketing. It has removed constraints to private sector participation in agriculture and has eliminated a number of marketing board monopolies. Unfortunately, how-

ever, initial public enterprise reforms remain marginal. The program made some initial progress in fiscal reforms during 1991/92, but most if not all of such achievements were undermined by the drought of that year. Progress has been made in liberalizing imports by eliminating nontariff barriers and reducing the number of goods requiring prior approval for import. But the early 1994 introduction of Foreign Currency Accounts (FCAs) and elimination of allocation of foreign exchange for imports is perhaps the most far reaching achievement of the reform program.

This study is timely and informative with its reflection on the accomplishments and challenges of Zimbabwe's recent economic reform initiatives. The report should serve as a guiding tool for government and donors alike in planning future and on-going economic reform and structural adjustment efforts in Zimbabwe, especially with regard to incorporating "social dimensions of adjustment" considerations in such reform programs.

This report is one in a series of studies on Africa's regional trade and agricultural comparative advantage, a joint activity of the Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and environment Division (AFR/SD/PSGE), and the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA).

Curt Reintsma
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The many helpful reactions and insightful comments from colleagues at USAID are gratefully acknowledged. In particular, the comments and revisions of Dr. Brian C. D'Silva and Dr. Joe Carvalho have greatly affected the shape of this document.

Executive Summary

Macroeconomic policy reform is arguably the single most pressing national challenge facing most economies of sub-Saharan Africa today. The overall objective of these programs is transforming the policy environment and correcting structural macroeconomic imbalances which have arisen from years of economic mismanagement and pursuit of inappropriate policies and development strategies by these countries. In an effort to create an environment that would foster economic growth and development, the policy changes pursued by most countries in Southern Africa are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

This report is an analytical examination of the accomplishments and challenges of main, recent and ongoing economic reforms in Zimbabwe, as well as

a survey of future components of such reforms. The study's discussion of key characteristics of the Zimbabwean economy reinforces the far reaching implications that policy reforms carry for macroeconomic performance, investment and trade liberalization, especially in light of the centrality to GDP of an agricultural sector (such as Zimbabwe's) that is so often highly vulnerable to unpredictable changes in weather conditions, namely, drought. Although some positive results on economic reform in Zimbabwe are identified and reported, the study underscores the need for future reforms to better plan for and incorporate Social Dimensions of Adjustment considerations into economic reforms, so as to better cushion low income and other vulnerable groups (women, children, etc.) from the adverse effects of structural adjustment programs.

Glossary of Acronyms and Abbreviations

CCZ	Cotton Company of Zimbabwe
CMB	Cotton Marketing Board
CPI	Consumer Price Index
CSC	Cold Storage Commission
DMB	Dairy Marketing Board
DLMA	Direct Local Market Allocations
EPP	Export Promotion Program
ERF	Export Retention Fund
ERS	Export Retention Scheme
EU	European Union
FCA	Foreign Currency Account
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMB	Grain Marketing Board
GOZ	Government of Zimbabwe
IMF	International Monetary Fund
MLAWD	Ministry of Lands, Agriculture and Water Development
NTB	Non Tariff Barrier
OGIL	Open General Import License
PE	Public Enterprise
SDA	Social Dimensions of Adjustment
UDI	Unilateral Declaration of Independence
USAID	U.S. Agency for International Development
ZIC	Zimbabwe Investment Centre
ZISCO	Zimbabwe Steel Company

1. Introduction

BACKGROUND

Zimbabwe is a small open economy which is heavily dependent on the agricultural sector, a sector that has undergone a great deal of adjustment in the last 20 years.¹ In foreign exchange terms, the agricultural sector is the second largest foreign exchange earner after the mining sector.² It contributes significantly in terms of raw materials both to the food processing and textile industries. It is also the country's largest contributor to total formal employment even though formal employment has been declining since the mid-1980s. It is estimated that if the number of farmers in the commercial and small-holder areas and their dependents are added, approximately two out of every three people in Zimbabwe derive their livelihood from the sector. In addition, the relative productivity of agriculture

ensures national food security, and the country is largely self-sufficient in food. However, there exists a "food insecurity paradox" particularly as food security at the national level is not matched by food security at the household level (see Rukuni 1990, and Jayne and Chisvo 1991).

SCOPE OF STUDY

This study analyses the current and future status of the implementation of key policy, regulatory and institutional reforms in Zimbabwe. A number of key features of the Zimbabwean economy are analyzed which confirm how the policy reforms impact on macroeconomic performance, investment and trade liberalization. Firstly, the agricultural sector is an important source of demand throughout the economy and, up to a certain level, the sector's good performance stimulates the economy. Secondly, increased demand can only induce limited economic activity because of the existence of supply constraints (e.g., inadequate foreign exchange to import essential inputs to replace production equipment and expand capacity). Thirdly, the heavy dependence of demand on the agricultural sector and the sector's overall importance relative to total output and export earning capacity, leaves the economy vulnerable to unpredictable changes in weather conditions.

It has been officially stated that a lot of progress has been made in reforming pricing and marketing arrangements (see for example, MLAWD Policy Statements 1994 and MLAWD/USAID Report 1994). This study provides a critical review of this progress in the context of overall macroeconomic reforms. The main tasks of the study are thus:

- to assess current reforms against policy measures agreed upon at the start of the reform

¹ Three phases of adjustment are readily apparent: (a) the long UDI period (i.e., 1965-1979) characterized by the forced adoption of economic self reliance; (b) the 1980-1990 period characterized by the introduction of egalitarian economic political programs by the independence government correct past inequities in resource distribution; (c) the current period, characterized by a reversal of the policies of the 1980s and involving the implementation of an economic reform program to generate growth.

² Out of the 200,000 plus youth who enter the labor market each year, less than 14,000 or a maximum of 7 percent will generally have completed a post secondary education program. A very small fraction of the new entrants into the labor market have skills that make them employable in the industrial sector. A large number either end up involved in informal activities (mainly in urban areas) or resort to meager farming activities in rural areas. In most cases, the latter simply become the rural unemployed (or "underemployed").

- program;
- highlight key shortcomings; and
- outline reforms which are scheduled to be implemented in 1995.

The source of the information used in the study is the government's policy framework papers, policy statements, World Bank, IMF and USAID papers, as well as ongoing policy research in the Ministry of Lands, Agriculture and Water Development (MLAWD) and the author's own research and experience. These documents and others obtained from other sources are presented in the bibliography.

The study is divided into 3 sections. Section 1 is this introduction. Section two examines the relation-

ship between macroeconomic policies and the agricultural sector during the implementation of the economic reform program. Section three examines the policy changes implemented since 1990, current status and reforms envisaged in the future. An assessment is made of the extent of the reforms. One important question addressed is: how far has Zimbabwe come in reforming its policies? It examines progress made in fiscal, monetary, exchange rate, investment policies and public enterprise reform, to ensure the achievement of more efficient and productive use of economic resources. It also looks at the road ahead for adjustment and asks the question: how much further has Zimbabwe still to go?

2. Macroeconomic Policies and Agricultural Performance

During the 1980s, Zimbabwe's economy registered uneven and sluggish growth rates and reflected a general failure to fulfil its growth potential. It was a decade in which the economy was characterized by the following negative factors:

- rigid foreign exchange rationing and price controls allowing monopolistic rents to be earned by importers;
- overvaluation of the Zimbabwean dollar acting as a disincentive to agricultural exporters and an incentive to importers of agricultural inputs; and
- the use of retention schemes acting as an incentive to the manufacturing industry more than agriculture.

After analyzing these developments, the government of Zimbabwe (GOZ) decided to get its macroeconomic policies right by implementing from 1990 a comprehensive five-year economic reform program to achieve higher and sustainable economic growth, economic efficiency, encourage investment and reduce poverty and unemployment. One key component of the reform program is the reform of the macro economy, but it also involves the reform of the agricultural pricing and marketing systems to reduce the taxation of farmers and the protection of industry. Of particular importance to this study are pricing and marketing reforms, measures to increase the role of the private sector in marketing and processing activities and measures to increase the volume of production in the sector, particularly among smallholder farmers.

However, as the GOZ began to move ahead with the implementation of the economic reform program, the country experienced its worst drought this century. Agricultural production fell by about 24 percent in 1992, and shortages of electricity in the second half of 1992 contributed to a 9 percent

reduction in industrial output and 8 percent decline in mining production (MLAWD 1993, unpublished). The general downturn in economic activity led, in turn, to a severe recession in the service sectors. Thus real GDP declined in 1993.

Government responded promptly to curtail the effects of the drought with a food relief and drought recovery program that included subsidized inputs to smallholder farmers and concessional refinancing of farmers' debts.

Notwithstanding the adoption of the economic reform program, the objectives of the GOZ's in the agricultural sector have remained unchanged and emphasize the need to:

- increase food production in order to ensure food security for the growing urban and rural population;
- improve the living standards of farmers, in the communal, resettlement and small scale commercial farming areas;
- sustain and expand employment in the agricultural sector;
- improve the net balance of payments by increasing foreign exchange earnings from agricultural exports and also by reducing food import requirements;
- generate higher rates of growth for the national economy as a whole, since growth in the agricultural sector has major multiplier benefits for other sectors;
- provide a regular supply of raw materials for the country's domestic manufacturing industry, 60 percent of which is agricultural related; and
- contribute to the food requirements of the Southern African region as a whole.

From the mid-1980s, the GOZ was preoccupied with addressing a major issue critical to the achieve-

ment of these objectives: the rapidly fluctuating supply and demand situation for “controlled” or regulated agricultural products. However in 1990, under the terms of the economic reform program, GOZ became more concerned with the evolution of crop pricing and marketing as it enhances or impedes the achievement of its objectives in the agricultural sector.

The most immediate goal of the economic reform program as it relates to agriculture is to raise agricultural output to meet the country’s short-term

domestic processing and consumption needs and also the medium-term growth target of 3.2 percent per annum. As part of the strategy to achieve this goal, the GOZ undertook a phased program of liberalizing the pricing and marketing system to reduce the financial deficits of the agricultural marketing boards, improve marketing efficiency and respond to producer and consumer requirements. Improving incentives and infrastructural services for farmers is also a key element in the adjustment program.

3. Policy Changes Since 1990

Current and Future Policies

A number of key components have an important bearing on agricultural performance during the implementation of the economic reform program. The main ones are fiscal, monetary and trade policy reform, investment policies, agricultural reforms, and public enterprise (PE) reform.

This section reviews progress on the implementation of reforms in these areas. The evaluation of progress is done by comparing reform targets against actual outcomes. Cases where there is no change in policy or where there are policy reversals are also discussed. The section ends with a summary of future policy reforms.

FISCAL POLICY

Zimbabwe started the 1990s with a large fiscal imbalance from high government spending and declining trade tax revenues caused by the collapse of commodity prices in the late 1980s. Budget deficits (including grants) in excess of 7 percent of GDP were the norm. Many economists have suggested that high budget deficits generally lead to rapid money growth, high inflation, and large current account deficits and that this is not the ideal basis for a conducive macroeconomic environment (see Easterly and Schmid-Hebbel 1991, and Kiguel and O'Connell 1993). It is also generally believed that while not a sufficient condition for a conducive macroeconomic environment, a small budget deficit and a low ratio of government consumption to GDP (i.e., current spending on goods and services) is a good enough indicator of an efficient fiscal policy (World Bank 1994).³

³ The overall fiscal deficit (including grants) shows how much the GOZ would have to borrow to achieve fiscal balance. However, because the GOZ has limited access to domestic and foreign financing,

Under the economic reform program (see Framework for Economic Reform, 1990-1995), the GOZ's fiscal policy objective is to reduce the budget deficit from 11 percent of GDP in 1990/91 to 5 percent of GDP by 1994/95 by cutting public expenditure to 38 percent while reducing the tax burden to about 33 percent of GDP. This reduction was to be achieved by reducing the fiscal deficit ratio by 2 percent in 1991/92 and by 1 percent per annum thereafter. However, while this is happening, government also wants to maintain infrastructure and address social concerns through improved targeting of subsidies to the poor and a general shift in the focus of government activities away from direct intervention in the market for goods and services towards reducing "market failures" and creating an enabling environment.

The position at the start of the economic reform program in 1990/91, was that central government revenue and expenditure stood at 37 percent and 48 percent of GDP respectively, implying a budget deficit of 11 percent of GDP. This was one of the causes of the lack of growth. Despite the attempt to reduce the deficit, the fiscal situation in Zimbabwe remained fragile. The budget deficit was not helped by relatively high government spending in the early 1990s at the same time as interest payments were

the overall deficit measures the potential risks of resorting to inflationary finance or the domestic financing of deficits in distortionary ways (e.g. incurring arrears with government suppliers or taxing the financial sector). Another measure of fiscal balance is the primary deficit, calculated by deducting interest payments from total expenditure. Some economists consider that a change in the primary deficit is a better indicator of fiscal performance than change in the overall deficit, because fluctuation in external interest payments are largely beyond the government's control in the short term.

also increasing. Cuts were mostly in capital spending which was unfortunate because the level of capital spending was not excessive although its composition needed improvement.

Government made some initial progress in 1991/92. The primary fiscal deficit as a share of GDP improved much better than the overall fiscal deficit. It is suggested (see MLAWD documents, 1993 and Sithole 1993) that the increased revenue was achieved largely through an increase in customs tax revenue arising from exchange rate depreciation.⁴ However, the overall 1992/93 fiscal deficit, excluding grants, climbed back to 10.4 percent of GDP. A large part of this deficit was caused by subsidies and transfers to PEs, much of which arose from the drought, and a high public wage bill. Zimbabwe is one of five countries in sub-Saharan Africa (SSA) with the largest increases in the wage bill as a share of GDP (see World Bank 1994). Ideally, spending cuts should have been reinforced by revenue increases. However, government revenue did not increase. The financing of the budget deficit was adversely affected by an overall shortfall in external financial assistance, as well as the bunching of available disbursements from multilateral financial institutions towards the end of the fiscal year. Consequently, government's net borrowing was well in excess of the revised program target.

Future Policy Reforms

From the above developments, it is quite clear that recurrent expenditure can only be reduced slowly over the years as government initially pays off retrenched workers in the public sector. Most of the budget deficit reduction will have to come from a reduction in subsidies going to public enterprises (PEs), the trimming down of the civil service, and from defence cuts. However, the target is to also raise additional resources through cost recovery measures such as charging for dipping services, charging higher school fees and health charges.

There are also a number of proposals to reduce the central government deficit, company and individual tax rates, improve revenue collection. The GOZ will also attempt to make headway on further reductions in the size of the civil service, then increasing wages in the public sector to ensure appropriate competition with the private sector. There are also proposals to improve procurement procedures and to reduce expenditure growth.

MONETARY POLICY

The main goals of the GOZ's monetary policy in the adjustment program are to maintain a low rate of inflation and suitable level of economic activity through an appropriate real interest rate.

Although a clear trend in the evolution of monetary policy was not evident in 1990/91, it would appear that the GOZ's stance in comparison with other countries in the region (e.g., Zambia and Tanzania) was fair as inflation was only just over 10 percent. This did not last for long.

Zimbabwe experienced high and negative real interest rates for long periods during 1991-1992, reflecting a tight monetary or credit policy, high inflation, and heavy taxation of depositors as the monetary authorities tried to cool off the economy. Since 1992, however, the country has experienced highly positive interest rates, suggesting tighter credit policies and excess demand for credit. These highly positive rates are riskier for banks as they are forced to lend at high real rates to remain profitable. However, during this period, interest rates had a limited value as an indicator of monetary policy in Zimbabwe as financial markets were/are thin and government (through the Reserve Bank) set the rates. Interest rate liberalization during 1993 helped to reduce the negative real interest rates.

There was an annual increase in the consumer price index (CPI) of the low-income group since 1991. The upsurge in inflation reached almost 25 percent by mid-1992 compared with an average of 25 percent in 1991.⁵

⁴ It was estimated that customs revenue would initially rise as imports increase.

⁵ The CPI is used as a proxy for the rate of inflation. Based on the CPI, it can be established that infla-

The reform targets for 1991 and 1992 were 16 per cent and 12 per cent respectively. This high level of inflation resulted from a combination of the following factors:

- the relatively high level of government expenditure, particularly for financing board deficits;
- the transitional effects of adjustment as companies responded to price decontrol;
- the staggering of price increases by parastatals; and
- the high cost of importing food during the drought.

Government responded by adopting a more active monetary and interest rate policy which included, inter alia, the use of monetary instruments such as raising the rediscount rate and the Treasury Bill Rate. However, while the use of these instruments led to a deceleration of inflation by early 1994, it also created tight liquidity conditions, rising nominal interest rates, and serious financial difficulties for farmers as banks rationed credit and biased it towards farmers with a lower credit risk. This was to the detriment of smallholder farmers, many of which were viewed by the banks as risky.

One policy measure for dealing with the above problem in future will be the opening up, by 1995, of the financial sector to entry by new banks and financial institutions to provide necessary competition and enhance efficiency.

Future Policy Reforms

In adopting more market-based instruments, it is intended to reduce inflation to below 10 percent in 1995. The monetary authorities will move to make the Bank Lending Rate dependent upon the cost of foreign and local borrowings, before being replaced by the use of open market operations particularly the use of rates of government stock and reserve requirements.

tion increased substantially from 1991.

EXCHANGE RATE POLICY

Zimbabwe started the adjustment period in 1990/91 with an overvalued exchange rate and a high parallel premium for foreign exchange (see Masters 1991).⁶ The GOZ was defending its international reserves through foreign exchange rationing and trade restrictions towards the end of the 1980s.

The adoption of the economic reform program signalled a change in exchange rate policy towards a more flexible and market-based system. This was in line with the elimination of the foreign exchange allocation system. The move to a market-based exchange rate system was initially through the Export Retention Scheme (ERS) where exporters could retain a part of their export earnings. Entitlements were made tradeable in mid-1992 such that by the beginning of 1993, retention levels had been raised

⁶ Quite apart from the implicit taxes and subsidies, the overvalued exchange rate affected the structure of production by distorting the incentives faced by farmers. This had two distinct ramifications. Firstly, because the agricultural sector generates significant exports, the relative decline in the price of tradables implied a deterioration in the commodity terms of trade faced by the sector. However, in the context of factor mobility, it implied a misallocation of resources away from agriculture to the manufacturing sector. Secondly, as not all agriculture products are tradeable, the overvalued exchange rate had the effect of encouraging the production of nontradables at the expense of tradable/exportables. Producers of these exportables were taxed as they received less in domestic currency for their exports than they would have under a more realistic exchange rate. Producers of importables, on the other hand, had to compete with “cheap” imports, although to the extent that there were controls on trade, exchange rate policy provided less of a disincentive to producers of import-substituting crops. Thirdly, the impact of overvaluation did not fall evenly on all farmers. Apart from producers of nontradables, those who used highly import-dependent technologies benefited from the overvalued currency. Thus, the overvaluation had the effect of overvalued income away from these producers to those who relied more on domestically produced, nontraded resources.

from 30 to 50 percent. This contributed to the expansion of the ERS market and the resulting premium became a proxy for the market value of the Zimbabwe dollar.

However, the ERS scheme had some key problems among which were the limitation to exporters only, the encouragement of multiple and distortionary exchange rates, and the negative impact on the reserves position due to the unpredictability of the utilization of entitlements. The monetary authorities, cognizant of these problems, introduced corporate foreign currency accounts (FCAs) to replace the ERS at the same time as the retention threshold was raised to 60 percent. This led to the development of an interbank foreign exchange market with its own foreign exchange rates, resulting in a two-tier exchange rate system. What followed was the liberalization of exchange controls. The introduction of corporate FCAs meant that the local currency was devalued by 17 percent, thus bring the “official” rate closer to the perceived market rate, the gap narrowing down from 5 percent in the first few weeks to 1 percent by June 1994. The two-tier exchange rate system was unified in July 1994, export retention raised to 100 percent at the same time, making the Zimbabwe dollar fully convertible.

Future Reforms

With the establishment of a market-based exchange rate, future exchange rate management will be guided by the need to maintain overall competitiveness through maintaining a constant real effective exchange rate; monitoring market rates vis-a-vis the internal rate based on a trade-weighted basket of currencies; determining parameters and bands to enable Reserve Bank intervention; and the use of open market operations to buy and sell foreign exchange to smoothen any swings.

TRADE POLICY

From a country that entered the adjustment period with an over valued exchange rate and heavily rationed foreign exchange rate, the GOZ made tre-

mendous strides in liberalizing imports. The phased depreciations of the exchange rate and the adoption of a macroeconomic policy consistent with a sustainable balance of payments had, as of the end of 1993, done away with foreign exchange rationing, eliminating the import scarcity premium that was reflected in the parallel market. The initial inflow of external funds to support the liberalized import program also played a major role in abolishing foreign exchange allocation.

The GOZ adopted a phased, outward-looking policy of trade liberalization involving a movement away from the system of foreign exchange allocations to a market-based system by the end of 1995.⁷ The GOZ’s Economic Reform document (1990) stipulated that there were to be two phases of liberalization. In the first phase, the system of allocating foreign exchange was to be phased out and replaced by a tariff-based system. Imports were to be progressively freed, domestic productive capacity modernized, producers prepared for external competition (through encouraging them to reorient their activities towards exporting). During the five-year period of liberalization, it was anticipated that the total amount of foreign exchange available would increase significantly as a result of enhanced exports from the agricultural, mining and manufacturing sectors, higher earnings from tourism and increased external borrowings. The total amount of foreign exchange available after deducting net invisibles each year, was to be allocated between current imports and capital needs.

The second stage of trade liberalization was to complete and supplement these reforms in areas such as identifying specific weaknesses in the productive sectors and introducing remedial measures to overcome them, strengthening infrastructure and reviewing domestic regulations. During this phase, government would increase sales taxes on luxury

⁷ This meant carefully implementing a transition from the system of import controls (essentially done through forex allocation) to an entirely tariff-based system. The tariff protection to those domestic activities which were considered viable in a progressively more open trading environment. In kept under review to enable further reduction.

goods to curtail demand. There were to be two main areas of emphasis during the early stages of the trade liberalization program:

- revision of the tariff regime; and
- provision of the necessary degree of protection to domestic producers as they adapt their production arrangements to a more liberalized trading environment.

To evaluate Zimbabwe's import liberalization program, this study looks at three key relationships: foreign exchange allocation; nontariff barriers (NTBs) to imports; and tariffs.

Quantitative Restrictions and Import Licencing

Although the GOZ had almost universal discretionary control over imports at the start of the reform program, it had moved to non-discretionary access of imports by the end of 1992. The GOZ initially introduced various mechanisms other than the elimination of foreign exchange licencing to relax the country's foreign exchange constraint. One, called Export Retention Scheme (ERS), was introduced in 1992 and allowed exporters to retain a part of their foreign exchange earnings.

The ERS applied to all productive sectors and was based on actual export earnings. The agricultural sector was initially entitled to retain 5 percent of the value of exports for the purchase of imported raw materials and capital goods to be used for existing lines of operation. The retention was on a cumulative six months' export earnings based on fully discharged CD-1 forms. At the start of the scheme, allocations for the agricultural sector were issued through MLAWD. Exporters had to apply through their banks to the Reserve Bank for "nontransferable" export retention allocation certificates.

In theory, this retention scheme should have been relatively simple to administer in cases where large amounts of exportable value-added came from single firms. However, in practice, there were a number of bureaucratic procedures to be followed including having to obtain an import licence. In applying the idea to agriculture, there were three major prob-

lems. First, for most crops, not all sales could be exported, and it was difficult to distinguish between exportables and non-exportables. Secondly, individual farmers sold only a relatively small proportion of exportables, and they were not themselves involved in importing inputs. Only a small number of large-scale commercial producers could get ERS allocations large enough to import anything substantial. Most farmers were getting very small amounts which were not very useful unless accumulated over a long period of time. Thirdly, while the requirements of input suppliers, transporters and processors who play an important role in exporting farm produce were catered for under the scheme, Marketing Boards (many of whom export) had to be given special consideration.

The introduction of FCAs and thus elimination of the allocation of foreign exchange allocation for imports at the beginning of 1994 (as described above) is probably among Zimbabwe's biggest achievements of the reform program.

Tariff and Non-Tariff Barriers (NTB)

Import liberalization can largely be judged from the GOZ's progress in eliminating NTBs. Import licences were key barriers and were connected to foreign exchange allocations in the sense that a valid import licence was required to obtain foreign exchange. The licences also had the additional function of protecting domestic producers from foreign competition. Because the licences were specific to either a firm individual or end use, they not only limited the quantity of imports but very often also reduced their economic benefit, and the imports did not flow to those who needed them most. Substantial progress has been made in reducing the number of goods requiring prior approval for import. A Tariff Committee was set up by government in 1990 responsible for revising the old tariff regime and a Tariff Commission to assist in the creation of a smooth transition to freer trade. A great effort was enacted to ascertain the appropriateness of particular rates of duty.

Subsequently, recommendations of revisions that would strike a "correct" balance between the inter-

Tables 3.1 and 3.2 show the planned schedules of tariff reforms and import liberalization respectively over the reform period.

Table 3.1. Schedule of Tariff Reform

	1991- 1992	1992- 1993	1993- 1994	1994- 1995	1995- 1996
Customs Duties	1030	1030	1030	1030	1030
Surtax	20	15	10	5	0
Total	1050	1045	1040	1035	1030

Source: Framework for Economic Reform (1991), MLAWD

Table 3.2 Schedule of Import Liberalization (Cumulative % of Total)

Minimum Share of Imports on OGIL							
	1989	1990	1991	1992	1993	1994	1995
OGIL							
- Unrestricted	6	6	30	45	60	75	85
- End use specific	14	18	20	25	15	10	0
- Total	20	24	50	70	75	85	85
Minimum Share of Six Digit SITC Categories on OGIL at end of the Period							
	1989	1990	1991	1992	1993	1994	1995
- Unrestricted	-	-	30	45	60	75	85
- End use specific	-	-	20	25	15	10	0
- Total	-	-	50	70	75	85	85

Source : Framework for Economic Reform (1991)

ests of producers and manufacturers on the one hand, and consumers/users of the products on the other were made and adopted by government.⁸

Then followed the introduction of an OGIL system. Government decided from the outset, that the rates of duty under the new tariff should be at levels that are consistent with GATT rules.⁹ In

⁸ The discussion here draws from various MLAWD reports documents and the experience of the author as a member of the Tariff Committee set up to prepare a new tariff structure.

⁹ With a few exceptions, they were to lie within a 0 to

settling the rates, the primary consideration was the state of competitiveness of the particular domestic activity against external competition. This meant that the rates applying to specific goods could be high or low, irrespective of whether they were primary, intermediate or finished goods. In the case of "luxury" goods, domestic consumption was initially discouraged by imposing a higher rate of duty or a selective consumption tax. Duty-free and drawback

30 percent range. Also, for the sake of simplicity in administration, the number of rates were rationalized to a small number.

facilities were also made available under the revised tariff regime.¹⁰ The only exception was imports of commodities grown, produced or manufactured in Botswana; these were initially subject to a 20 per cent surcharge until the new tariff regime came into place and the trade agreement with Botswana had been terminated. However, the new tariff regime was not devised as a revenue measure although as imports increased, revenue also increased.

Some of the key imports which still needed foreign exchange allocation were: general state needs like petroleum, defence and security. Other expected imports under the OGIL, EPP, ERF, ERS and direct local market allocations (DLMA), were to receive allocation after key import requirements had been dealt with. All foreign exchange made available under the OGIL scheme was to be used to best advantage to generate exports and restructure productive capacity. A key criterion for placing an item early on OGIL was its effect on the balance of payments. Other key considerations were:

- present and potential export capacity and ability to compete;
- the relative attractiveness of the export and domestic markets for producers as indicated by domestic/export prices;
- linkages between sectors in the supply of inputs and the direct and indirect employment effects.

Table 3.2 summarizes the minimum share of imports proposed to be placed under OGIL during the first three years of the program. The schedules shown in Table 3.2 were closely related to funding requirements. It was considered that external liberalization could be accelerated if more funds are available. Initially, because of the difficulties asso-

ciated with establishing the value of imports in advance, the share of OGIL imports by value were calculated on the basis of the previous year's imports. Thus, for example, goods eligible for OGIL at the of June 1992, comprised only those goods which during 1991 had accounted for at least 15 percent of the value of imports.

The whole thrust was to progressively place SITC categories of goods on OGIL during the first three years of the program so that in year four (i.e., 1994/95), the list of OGIL goods would be eliminated and all goods would fall immediately under the unrestricted OGIL unless included under a negative list. Progressive additions were made to the list in successive years, starting first with raw materials (irrespective of whether they were domestically produced or not), followed by intermediates and selected capital goods. With regard to consumer goods, the target was to place them on OGIL in the fourth year to minimize damage to local industry and employment, while ensuring that industries could restructure for external competition. The sectors with the strongest export capabilities have first claim on foreign exchange. However the agricultural sector continued to have access to the AEPP until it was phased out in 1992 following the introduction of the ERS in July 1990.

The initial approach was clearly to place the less widely used items onto OGIL with a view to ensuring that the import bill was kept within manageable limits. However, as the liberalization program progressed, it was decided to change the approach to ensure that the latter stages of the program would not be confronted with widely used and costly items which would induce undue pressure on the balance of payments. As the OGIL and ERS systems gradually began to replace the foreign currency allocation system, modest tariffs became the only source of protection for local producers as almost all tariff rates were already in the 10 to 30 per cent range by the end of 1991. However, by the end of 1992, government's approach had shifted towards progressively expanding both the OGIL and ERS to reduce the amount of foreign currency allocated under DLMA as well as the number of foreign exchange windows.

10 However, this system came under increasing strain after the manufacturers rebate was abolished and (except for some agricultural imports, e.g., tractors) an across-the-board minimum duty rate of 10 percent was introduced in 1991. In any case, the system was not well understood by exporters. In addition, the Customs Department had cumbersome procedures for verifying the import content, resulting in delays in refunds of duty and tax.

A departure from the original OGIL sequencing was soon implemented following the introduction of a high-pitched transferable ERS. Under the combined OGIL and ERS, the exporting sectors should be catered for by the ERS, while the OGIL had to shift from its original export promotion thrust and be oriented towards providing for the non-exporting sectors. In making a decision about what items should be placed on OGIL, government began to relate OGIL to ERS. After a comprehensive review of the system in 1993, a new sequence was put in place, any import liberalization would be implemented by increasing the ERS to provide an additional market-based incentive to export and avoid the risk of an unsustainable BOP situation. All firms could have access to foreign exchange through the ERS market.¹¹

Conclusion

However useful the OGIL scheme may have been in helping to phase in import liberalization and reducing NTBs, it is still neither open nor general. The scheme has enabled Zimbabwe to move from a system of highly rationed imports to a more liberalized regime and currency convertibility. However, it has not committed the GOZ to an overall liberalization that might place the country's reserves at risk. The use of the OGIL scheme to liberalize NTBs does not constitute a complete opening of trade. Good progress was also achieved in rationalizing tariff codes to increase revenue collection. Pre-reform tariff codes were complex, often determined by ad hoc tax rates, exemptions and conditions. Zimbabwe has now moved beyond remedying reducing the number of tariff rates, rationalizing those that remained, and improving administration and collection.

¹¹ The operation of the ERS market was henceforth streamlined and ERS entitlements were to be handled by commercial banks. An official ERS market based on ERS entitlements was thus established, and ERS passbooks could be held by importers. The retention rate was also increased to at least 50 percent by July 1993.

INVESTMENT POLICIES

Domestic deregulation progressed in a number of areas including investment, labor, price and marketing reforms.

In 1993, government announced major steps in the deregulation of private investment, mandating the Zimbabwe Investment Centre (ZIC) with responsibility for implementing the measures. The key elements included delicensing of investments not requiring access to "official" foreign exchange and measures to decontrol the repatriation of profit, dividends and capital. The objective was to relax substantially domestic controls over investments made with "own funds" to give flexibility to firms to respond to favorable competition and new opportunities and to generate a supply response.

The following reforms were undertaken:

- During 1992, government introduced surtax and import tax exemption for capital goods under projects approved by the Zimbabwe Investment Centre (ZIC). Investments made outside ZIC could only benefit from this if they obtained authority from Ministry of Finance.
- Government introduced flexibility in investment licensing in 1993; while ZIC would continue to register all investment projects, approval in terms of foreign exchange would only be for those requiring direct foreign exchange allocation and for large projects.¹² Any new company established with foreign shareholding and without recourse to direct foreign exchange allocation became eligible for unrestricted remittance of after-tax dividends accruing to foreign shareholders.
- Foreign companies established prior to May 1993, became eligible to remit a percentage of dividends through the ERS.
- Foreign companies established prior to September 1979 who could not remit their dividends,

¹² With the reduction in its project evaluation role, ZIC was transformed into an investment promotion rather than regulatory agency.

became eligible to remitting a higher percentage of net after tax profits; for all companies, any new foreign investment made after 1979 became eligible for unrestricted repatriation of foreign exchange injected as capital in the project.

Other key areas were the deregulation of the labor market, municipal bylaws, transport regulations. Of relevance to agriculture was the deregulation of the labor market which was aimed at reversing the upward trend in unemployment and establishing a positive link between labor regulations and employment levels. The deregulation of the transport sector was targeted at opening up the sector for small truckers and doing away with restrictive permits that prevent small transporters doing business in rural areas and growth points.

Future Policy Reforms

Government intends to phase out the need to approve most investment proposals except those for large investments. The final phase of delicensing will be the establishment of the Zimbabwe Investment Centre (ZIC) as an investment promotion rather than project approval agency. As part of efforts to attract foreign investment, GOZ is committed eliminating all exchange controls and maintaining a legal framework that provides full protection of private property rights for investment whether local or foreign.

AGRICULTURAL REFORMS

Zimbabwe's farmers face one of the world's heaviest rates of agricultural taxation, perhaps partly because agriculture is such a crucial source of revenue for government. Zimbabwean farmers were taxed explicitly through producer price fixing, export taxes, and taxes on agricultural inputs. They were also taxed implicitly through an overvalued exchange rate which reduced the prices they obtained for their exports, and through high levels of industrial protection, which raised consumer prices (see Jansen and Rukovo 1991 and Masters 1991).

Market liberalization has focussed on the restructuring of marketing boards to prepare them to face the challenge of operating in a competitive environment and the replacement of officially-determined pricing and marketing systems by market-based systems. Since 1991, the GOZ has made Policy Statements and begun to implement a series of far-reaching marketing and pricing reforms. Most of the Policy Statements since 1991 suggest that the GOZ has made significant progress in the implementation of pricing and marketing reforms including the elimination of monopolies held by the four marketing boards and the abolition of price and other controls constraining the participation of the private sector in these activities.¹³

Overall, the easiest reform to implement has been moving producer prices towards export or import parity. The most difficult has been to limit boards to their identified commercial and food security functions in light of concerns about unemployment and protecting producers' access to markets in remote areas.

Restructuring of Marketing Boards

In a far-reaching policy statement in January 1991, government announced its intention to restructure agricultural marketing boards. This was followed by the setting up of boards of directors in June 1991 to direct the activities of management in improving efficiency and the commercialization of a number of

¹³ Traditionally, the Minister of Lands, Agriculture and Water Development announces Cabinet's decisions on pricing and marketing policy change. Normally, the Minister makes an announcement for producer and wholesale prices just before harvesting in March/April every year. These prices are normally applicable for the marketing period for each individual commodity. Prior to the start of the market liberalization in 1990, the announcement would follow Cabinet's decision based on recommendations arising from negotiations with producer organizations and marketing boards. Since 1990, a second statement is usually made in July/August outlining the general policy on agricultural production, marketing and likely outlook for the next planting season.

their activities. Government also announced its intention to give greater autonomy to the new boards through amendment of board Acts and performance contracts for management based on effectiveness, efficiency and financial criteria. However, the issue of greater autonomy for the Boards is still a matter to be addressed through amendment of Board Acts. In addition, none of the boards have yet agreed with government on appropriate performance contracts.

The program for improving efficiency included the preparation of business plans and proposals indicating those activities that fall within the scope of the Boards themselves and those which require changes in government policy. Some of the areas included:

- cost-reduction measures and rationalization of board operations and structures; and
- splitting the “business” of the board into
 - those commercial aspects which can be floated off or privatized,
 - those operations which have become less relevant because of liberalization and need to be discontinued, and
 - social activities to be financed by Treasury.

The whole purpose of commercialization is to achieve two important objectives:

- releasing government from the burden of providing loan funding either by way of direct loans, or loan guarantees; and
- creating conditions for loan capital to be financed through normal commercial channels at current interest rates and to be serviced entirely by the board itself.

The commercialization of marketing boards has proceeded relatively slowly.¹⁴ Much of 1991-1993

¹⁴ Commercialization basically means giving the boards a capital structure which is more in line with normal commercial enterprises, as well as a fair basis from which to achieve the basic requirement of at least breaking even financially. Broadly speaking, this entails balancing equity capital on which no interest is charged but has an entitlement to

was spent preparing a competitive institutional framework and setting up boards of directors for the marketing boards. Currently, all the boards have a very low or nonexistent capital base and an exceptionally high proportion of debt financing. In May 1994, the GOZ announced DMB restructuring leading to the following:

- Dairy Marketing Board (DMB) becoming a 100 percent government owned company in July 1994; and
- arrangements to be made for existing government loans to be turned into DMB equity at no cost to Treasury.

Since July 1994, the DMB has become a 100 percent Government-owned company registered under the Companies Act as Dairibord Zimbabwe Limited. Since September 1994, the CMB has also become a 100 percent Government-owned company registered under the Companies Act as the Cotton Company of Zimbabwe. The CSC, like DMB and CMB will be expected to restructure its balance sheet and prepare a corporate plan before its status is changed to a 100 percent government-owned company.

The government program for 1995 is for these boards to attract investors through a significant reduction of the debt overhang and perceived future profitability; only in the case of the GMB does government see the need for continued government financing of its social or strategic activities. It will also involve sorting out the ideal gearing, mix of equity and interest-bearing loans, debt-equity swaps, and the most appropriate capital structure.

Price and Marketing Reforms

It is generally expected that reform efforts for crop marketing will involve eliminating marketing boards, linking producer prices to world market prices while reforming marketing boards to reduce costs, and allowing the private sector to compete with marketing boards in crop purchasing and exporting.

surpluses or profits, and loan capital which has no such entitlement but in which interest is payable.

The GOZ has undertaken a great deal of reform of its domestic pricing/marketing systems but has not abolished marketing boards nor liberalized the export market. The first step, taken during 1991-1992, was the introduction of floor/ceiling prices for all “controlled” agricultural commodities. The second was the process of linking producer prices to world market prices. The third type of reform, maintaining the board but allowing private traders to compete, is meant to encourage the benefits of competition and gradually demonopolize the boards. The GOZ is using this approach with dairy, beef, oilseeds and grains.

Beef

Government indicated in July 1993 its intention to:

- eliminate the floor prices at producer and whole-sale level in the domestic market;
- eliminate slaughter quotas at all abattoirs;
- review health standards and regulations to ensure public safety is maintained without reliance on production quotas; and
- review export regulations with the objective of permitting private individuals and firms to export beef and beef products.

These policy changes were to be made effective no later than the beginning of the 1994/95 marketing year.

There has been significant progress in the liberalization of beef pricing. With effect from the 1994/95 marketing season, all floor prices were eliminated, and government is no longer involved in price setting. Slaughter quotas at abattoirs have also been eliminated, and private traders are now allowed to participate in beef marketing in the domestic market subject only to conforming with stipulated hygiene and public health standards. These reforms appear to be succeeding in the domestic market. However, the barriers to competition still remain in the export market as the CSC continues to have monopoly over beef exports to the European Union (EU) due to the strictest veterinary requirements of the EU which private exporters are not able to meet

at this point in time. However, permits will be issued for private sector beef exports to the regional market provided the required phytosanitary standards are met.

Dairy

Government indicated in July 1993 its intention to:

- review health standard regulations to ensure minimum health standards for milk production; and
- review export regulations with the objective of permitting private individuals and firms to export beef and beef products.

These policy changes were to be made effective no later than the beginning of the 1994/95 marketing year.

There has been significant progress in the liberalization of milk pricing and marketing. With effect from the 1993/94 marketing season, all floor prices were eliminated and government is no longer involved in price setting. Authority for licencing of dairy enterprises was transferred to MLAWD with effect from July 1994, and new entrants are now permitted to compete with DMB in processing, marketing and exporting of dairy products provided they meet the required phytosanitary standards.

Cotton

Government indicated in July 1993 its intention to:

- abolish the marketing and processing monopoly of the CMB and regulations restricting new entrants except those relating to health safety and the environment;
- allow all marketing agents to market cotton products domestically to their best advantage, subject to minimum quality standards;
- review export regulations with the objective of permitting private individuals and firms to export cotton and cotton products; and
- maintain the policy of allowing unrestricted cotton lint imports through the ERS.

These policy changes were to be made effective no later than the beginning of the 1994/95 marketing year. The monopoly of CMB was eliminated effective from March 1994. The regulations restricting entry by others in domestic marketing and processing are no longer applicable except those relating to health, safety and the environment. In addition, export permits have been granted to the private sector while cotton imports have not been prevented. Producer and selling prices for cotton became market-determined during the 1993/94 marketing year, with CMB negotiating prices directly with producers. The CMB uses a two-payment system: a fixed sum at the time the crop is purchased, and variable payments later, based on the unit price and board profits. In practice, when world prices are higher than expected at the time of the export, CMB passes back the windfall to the producer using this supplementary payment scheme. This system has been successful in Zimbabwe largely because of efficient administration and the passing on of benefits as promised.

While the official government policy on pricing is as stated above, the GOZ nevertheless directed the CMB, that is, Cotton Company of Zimbabwe (CCZ) to sell lint to local spinners at a price 15-20 percent below the market price for the period June-November 1994. This directive is inconsistent with market-based pricing and undermines the financial viability of the CCZ, but is considered a temporary measure to assist local textile companies facing serious viability problems.

Oilseeds

Government indicated in July 1993 its intention to:

- eliminate floor prices on oilseeds and their by-products and allow GMB to purchase oilseeds to best advantage; and
- review export regulations with the objective of permitting private individuals and firms to export oilseeds and oilseed products.

These policy changes were to be made effective no later than the 1994/95 marketing year.

Soya beans and groundnuts ceased to be controlled crops in the 1993/94 marketing year. Also, with effect from 1994/95, sunflowers also ceased to be controlled and private traders can now buy and process oilseeds at market-based prices. Although there are no similar restrictions on groundnuts and sunflower export, export permits for soya beans can only be granted after satisfying domestic requirements.

Wheat

Government indicated in July 1993 its intention to:

- allow GMB to announce and defend a floor producer price for wheat;
- eliminate all marketing controls on wheat allow private firms and individuals to participate in domestic wheat marketing;
- review wheat trade and stocking policy; and
- review import, export and stocking policy with objective of permitting private individuals and firms to trade in wheat.

These policy changes were to be made effective no later than the beginning of the 1994/95 marketing year.

Wheat was decontrolled and farmers allowed to sell directly to anyone on the domestic market while GMB continues to be a residual buyer though free to negotiate prices without government intervention. However, wheat is still regarded as an important food security commodity. Import and import permits can only be provided with the concurrence of GMB.

Maize

In July 1993, government decided to eliminate all price and marketing control on yellow maize, thus effectively allowing entry of private traders into yellow maize marketing and market-based prices to determine trade.

On white maize, the July 1993 announcement indicated government's intention to develop a maize stocking policy consistent with its food security objectives and implement reforms that would:

- remove the requirements for farmers to sell white maize to GMB and allow anyone, except designated large millers, to buy white maize from any domestic source;
- redefine Zones A and B so that Zone A is limited to the operating premises of specific large-scale commercial millers in natural regions I, II, and III, and Zone B as the rest of the country;
- allow free and unrestricted movement and sale of white maize in Zone B;
- allow GMB to defend a floor price for white maize at selected depots throughout the country; and
- require GMB to sell at the wholesale price to all individuals and firms.

These policy changes were to be made effective no later than the beginning of the 1994/95 marketing year.

All subsidies on maize and maize meal products were eliminated in the 1993/94 marketing year and GMB may sell maize to any buyer at the same price. During the 1994/95 marketing year, the marketing of maize was further decontrolled and maize is now freely traded without any restrictions in the domestic market. However, the GMB continues to operate as a residual buyer and seller, defending a government-mandated floor price and also managing the strategic grain reserve.¹⁵

Thus far, a lot of progress has been made in the area of maize marketing policy. However, substantial work still needs to be done to reform the maize pricing policy in order for it to be in conformity with

the requirements of the reform program and developing an appropriate reserve stock policy.

The question of developing a reserve stock policy has been long and protracted. Government first made reference to the question of developing a “viable” stock policy for maize in 1992, suggesting an initial figure of 800,000 tons to be finalized later after the formulation of a more detailed stockholding policy. In July 1993, government set a reserve stock of 936,000 tons which was far in excess of that recommended in the GMB’s “Minimum Reserve Stock” paper.

According to government, the objective of setting the reserve stock at 936,000 tons was to strike an “appropriate balance between the cost of holding grain stocks and the need to avoid future food shortages.”

It is clear that the circumstances under which this decision was taken, have altered significantly. While further maize market liberalization is envisaged by the GOZ, it is clear that it is not with the objective of reducing the need for public sector reserve stockholding requirements. In its August 1994 announcement, it is quite clear that government is, at this stage, opposed to the idea of the private sector holding some proportion of the strategic stock on behalf of government.

Future Policy Reforms

Future reforms will concentrate on establishing institutional efficiency. This will be achieved through splitting the “business” of the marketing boards into three categories:

- those commercial aspects which can be floated off to the private sector or privatized - the DMB and CMB are already in that category;
- those operations which have become redundant as a result of market liberalization and must thus be discontinued; and
- the social and strategic activities which have to be undertaken but funded by government the GMB’s strategic grain reserve falls in this category.

¹⁵ This is an attempt by government to protect small producers against the risk of market failure. However, it means that GMB continues as a residual buyer for white maize and wheat at a floor price set by government. This has resulted in GMB incurring very serious financial deficits. The 1991/92 net deficit of Z\$64.7 million deteriorated to Z\$769 million in 1992/93 and to Z\$1200 million in 1993/94. These losses have been entirely due to the outturn on the maize trading account. The losses emanate from two major causes: the effects of government price controls on GMB purchases and sales, and the failure by GOZ to recoup the losses.

On the pricing front, the white maize producer price is still controlled by Government. The GOZ announced a static GMB floor price of Z\$900/ton in March 1994 which does not reflect the border price. In the 1995/96 season, the GOZ has committed itself to allowing white maize producer price to be market determined, while allowing GMB to defend a floor price at selected depots throughout the country.

PUBLIC ENTERPRISE REFORM¹⁶

The GOZ's economic reform program emphasized the objectives of achieving greater operational efficiency and improved financial performance through the restructuring of PEs. PE restructuring was to be carried out partly through reforms in the legal and institutional framework by June 1993 and clearing the backlog of subsidies.

The process of clearing the subsidy backlog started in the 1990/91 fiscal year when government set ceilings for PE losses and indicated measures to ensure that PEs kept their losses to within established targets. There were then large price increases for many PEs, while agricultural producer prices were raised significantly in 1992/93 to provide the appropriate incentives to producers.

Much of the initial reduction in subsidies was achieved by giving greater flexibility to PEs in pricing and marketing, introducing greater competition and pushing for improvements in enterprise performance. However, initial results were significantly below target. By December 1992, the turnout for the 10 major PEs reflected a huge combined operating loss attributable to losses by CSC, GMB and CMB and ZISCO.¹⁷ Subsidies were also high

because of the need to provide for write-offs in respect of past losses of PEs. The 1993/94 marketing year experienced major reductions in explicit subsidies on maize and maize meal, as well as wheat and wheat products. But because of the drought, transfers to PEs increased, although there were some major achievements in DMB recording profits in 1992/93 and 1993/94. Since then, DMB and CMB have become 100 percent government-owned companies.

Future Policy Reforms

To achieve the objective of improved financial performance, all PEs will be expected to implement tariff setting formulas and adopt market-based pricing. The issue of autonomy for PEs will be addressed with emphasis on allowing them to hire and fire as well as determine pay scales and procurement. The private sector will be invited to participate in those parastatals that have become companies (e.g., DMB and CMB). Greater attention will go towards subcontracting services in the public sector.

CONCLUDING REMARKS

The preceding analysis reveals that Zimbabwe's weak economic performance during the 1980s is the direct and indirect outcome of a combination of factors, including a highly administered foreign exchange allocation, pricing, and marketing system, as well as overvaluation of the Zimbabwe dollar. It was against this background that the Government of Zimbabwe embarked on a comprehensive economic structural adjustment program beginning in 1990 with the objective of achieving higher and sustainable economic growth, economic efficiency, encouraging investment and reducing poverty and unemployment.

The Government made some initial progress in the area of fiscal reforms during 1991/92, but this was eroded by that year's drought and a high public wage bill. On agricultural reform, significant progress has been made in implementing pricing and

¹⁶ The restructuring of agricultural public enterprises is discussed under Section 3.6 covering marketing boards.

¹⁷ The GMB loss is attributed to the 1992 drought which resulted in huge maize subsidies to offset the high price of imported maize as well as the roller meal subsidy. The GMB loss on the other hand, is largely attributed to the subsidy on cotton lint which CMB was directed to import on behalf of local spinners during the 1992 drought.

marketing reforms, removing constraints to private sector participation in agriculture, as well as eliminating a number of marketing board monopolies. But initial results from public enterprise reform remain significantly below target. In monetary policy, interest rate liberalization during 1993 helped to reduce the negative real interest rates, but inflation surged to 45 percent in mid 1992, although the reform target for that year was 12 percent.

As efforts to reform exchange rate policy via the export retention scheme faced problems, monetary authorities introduced corporate foreign currency accounts to replace the scheme; this was ultimately followed by the liberalization of exchange controls. As regards trade policy reforms, significant achievement was made in liberalizing imports by eliminating nontariff barriers and reducing the number of goods requiring prior approval for import. The introduction of an OGIL system such that tariffs are at levels that are consistent with GATT rules also represented a major advance in reforming trade policy, although the OGIL system is still neither

open nor general. The introduction of FCAs and elimination of allocation of foreign exchange for imports in early 1994 is arguably among the most significant and far-reaching achievements of the reform program.

While the structural adjustment program has made progress in reforming some sectors of Zimbabwe's economy, a lot more remains to be done in ensuring overall recovery and sustainable economic growth. The 1991/92 drought, Zimbabwe's worst in almost a century, greatly undermined agricultural and industrial vigor and vitality, as well as the momentum and potentially positive benefits of the reform program. While the social dimensions of adjustment were addressed by the Government of Zimbabwe with bilateral and multilateral donor support at least two years after the reform program began in 1990, with some progress recorded in it also, future reforms should ensure that such social safety net programs be elaborated thoroughly and implemented simultaneously with, if not in advance of, reforms.

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